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Shanghai - Gateway to a Growing Chinese Market

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Report Highlights:

China's continued rapid economic growth and heavy investment in transportation infrastructure have advanced Shanghai's position as a regional trade and finance center. Beyond the importance of Shanghai's 20 million trend-setting consumers, the city also serves as the entry point for the large number of growing cities along the coast and deep into the interior.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Shanghai ATO [CH2]
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Growing Market, Great Potential

China's continued economic growth and improved access to imports under the WTO have helped to underscore Shanghai's emergence as the commercial capital of China. With a growing population and incomes far above the national average, the city of Shanghai constitutes a major market in itself. However Shanghai is more than just an enormous potential market: it is also the gateway to the growing industrial centers of East China, and to many of the major cities of the interior. Shanghai is also finding its place as the location of choice for corporate headquarters and for service industries such as insurance and finance.



The business climate in Shanghai is more favorable than in most other major cities, and local officials are aggressive in promoting business development. This pro-business attitude, along with good infrastructure explains Shanghai's continued success in attracting businesses despite rising costs. In recent years Shanghai has hosted the Global Fortune 500 Forum (1999), the annual APEC summit (2001), and won its bid to host the World Expo in 2010. It also explains why Shanghai has grown into a key import center for much of East and Central China. Products imported into Shanghai are re-distributed to inland cities as distant as Kunming and Chengdu.

The City of Shanghai

Like Beijing, Chongqing and Tianjin, Shanghai is an autonomous municipality, combining governmental features of both a city and a miniature province. Unlike the others, the surrounding areas of the Shanghai district are largely incorporated into the city's economy, making the distinction between the Shanghai district and the City of Shanghai largely academic. The most recent estimate for Shanghai's population is 20 million, a jump of 3-4 million over the previous estimate. Much of this increase is attributed to migration from the rural areas of neighboring provinces—the population of officially registered residents is closer to 14 million. Rapid population growth has led to crowding, and some sources claim that Shanghai is now the most densely populated urban center in Asia.

The Economy

Despite the impact of SARS, Shanghai's economy has continued to grow at a rapid pace. For the first half of 2003, economic growth hit 11.4%, even after the SARS crisis led to a sharp drop in tourism and business travel throughout the summer. In 2002, the city's GDP totaled \$654.4 billion, an increase of 10.9% over the previous year. Economic growth in recent months has been so rapid as to raise concerns about inflation (food prices increased by 2.9% in 2002 and are reportedly increasing even more rapidly in 2003). Although production costs have increased, Shanghai remains a major center for major industries such as automobile and garment manufacturing. Meanwhile, the city has also become an important center for the finance, banking and insurance industries, and is investing heavily in IT infrastructure. Shanghai also remains an attractive location for foreign companies to locate their mainland China headquarters.

Table 1. Shanghai Statistical Overview, 2002			
Indicator	2002	2002 Growth	2003 YTD
Land area (sq. kilometers)	6,341	--	--
Population (million)	20	NA	--
GDP (\$billion)	654.4	10.9%	341.9*
Average income (\$)	2,354	9.5%	2,433**
Average urban family disposable income	1,603	11.5%	1,791**
Total sales of consumer products (\$billion)	246.24	9.3%	131*
*Total, first half 2003. **Average, first half 2003. (Source: China Census/Shanghai Stat. Bureau).			

With an estimated 1.5% of the nation's population, the Shanghai district accounted for over 13% of China's imports, slightly less than 10% of exports and over 8% of foreign direct investment in 2001 (China Census Yearbook, 2003). This growth in trade not only reflects the expansion of markets in East China, but an overall shift toward direct trade and away from gray market channels. The shift is being driven by improved access for imported products and declining tariffs under China's WTO agreement, which have made direct imports easier and less costly than in the past. The district and city governments have played an important role in developing trade and foreign investment, offering a number of preferential policies and investing heavily in trade infrastructure. The Port of Shanghai tops all others in volume, at over 220 million MT in 2001. Numerous projects already underway will ensure that Shanghai's logistics and transportation capabilities remain among the best in China.

The Consumers

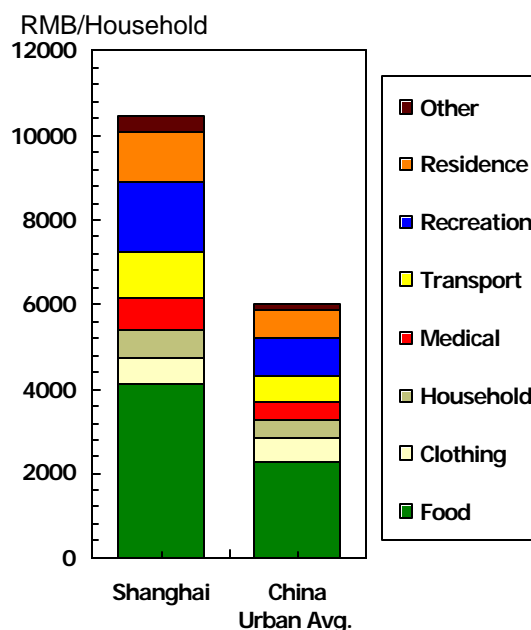
Shanghai is one of the wealthiest cities in China, with average annual incomes nearly equal to the top 10% of China's urban consumers. The growth in incomes shows no sign of slowing. In 2002, the average urban income jumped by 9.5% to reach \$2,354. In the first half of 2003, the increase was 10.8% compared to the same period in 2002. Shanghai is also home to one of China's largest foreign communities: estimates of the foreign population range from 300,000 to 500,000.

The city's cosmopolitan character and affluent population provide it with a broad exposure to foreign products and with the wherewithal to buy them. As a result, Shanghai's residents often act as trend-setters for the rest of China. Consumers in Shanghai are extremely brand conscious, viewing famous brands as both status symbols and guarantees of quality. Hence consumers in the city are more willing to make the tradeoff between price and quality than is typical through most of China. As a result, high-end shopping districts such as Nanjing Road or Huaihai Road are crowded with top-end fashion boutiques such as Ferragamo, doing good business despite competition from low quality look-alikes and counterfeits.

Recent years have seen the emergence of a new consumer demographic throughout China, but particularly in Shanghai, as younger people who were raised during the period of prosperity become independent consumers. This group is

Urban Household Expenditures 2002, By Category

(Source: China Census, 2003)



young and affluent, and more consumption oriented than their parents. Their appearance has helped to spawn the emergence of a 'mall culture' in Shanghai, that looks to retail venues as sources of entertainment as well places to shop. They are also more willing to take on debt as a means of financing purchases, which has led to a boom in home and car sales. In terms of food sales, this group of consumers is helping to drive the movement toward sales of ready-to-eat and heat-and-eat meals in retail venues.

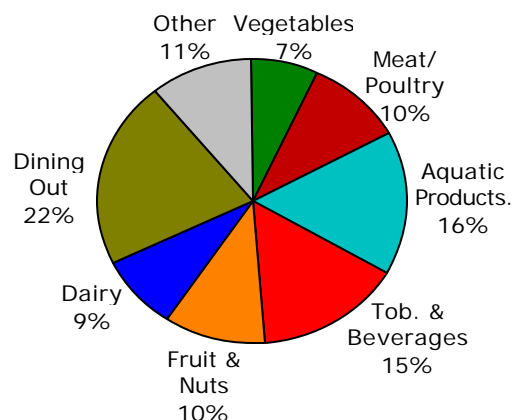
The Food Market

Although incomes in Shanghai are high, Shanghai's consumers continue to spend a hefty proportion of that income on food. Per-capita spending on food is higher in Shanghai than in any other province or autonomous municipality in China. Census data also show where the differences lay: Shanghainese spend relatively more on aquaculture products (nearly three times the urban average) than any other place in China except neighboring Zhejiang Province. They also spend a larger proportion of their income on dairy products, with total expenditures well over double the national average for urban residents. The relatively large amount of money that Shanghainese are willing to spend on food products makes them excellent potential buyers of imported foods.

Food retail is a big business in Shanghai, with total sales of food products reaching \$9.98 billion in 2002. Food shoppers in Shanghai have a wide range of venues for spending their money: the food retail industry in Shanghai is well-developed and growing rapidly. Total sales revenue for chain stores jumped by 21% in 2002, ringing up a total of \$76.23 billion. 2003 is also shaping up to be an outstanding year, as total sales for hypermarkets, supermarkets and convenience stores increased by 30% in the first half of the year as compared to the same period in 2002. Shanghai is at the forefront in the modernization of retail outlets. The city pioneered the convenience store format in China, and is still home to over half of the convenience stores in the country. It is also home to three of China's five largest retail chains, Lianhua, Hualian and Nonggongshang. Foreign

retailers have shown an intense interest in the city, and Carrefour, Metro, Lotus, Auchon, RT Mart and Trust Mart have all opened stores, while Wal-Mart has plans to enter the market within the next two years. Retailers are becoming increasingly sophisticated in their marketing efforts, developing campaigns to target specific demographic groups.

Shanghai Urban Household Expenditures (RMB/household)
(Source: China Census, 2003)



The Hotel, Restaurant and Institutional (HRI) food sector is also extremely well developed in Shanghai, and provides the leading edge for the introduction of new products. While Chinese and expatriate diners generally have distinct preferences, in Shanghai more than anywhere else in China, the two groups are merging into a single high-end clientele. This group is interested in novelty, and foreign restaurants and fusion restaurants are more common than elsewhere. The SARS crisis hit HRI especially hard, with many hotels registering single-digit occupancy rates for months at a time. Nonetheless, the HRI sector appears to have bounced back, posting a 12% increase in sales revenues during the first half of 2003.

Beyond Shanghai

Shanghai is more than just an immense market. It is also a shipping and distribution hub for products that move into markets throughout Eastern, Central and even Western China. In

addition to excellent logistics infrastructure, Shanghai boasts a coterie of distributors whose reach now extends to some of the furthest corners of the country. Experienced in customs, quarantine and currency exchange procedures, some of these distributors offer a full range of services to exporters, taking much of the paperwork (and headaches) out of exporting to China. As a distribution center, Shanghai services both nearby markets and cities deep in the interior.

The Window To a Developed China

Shanghai's rapid growth has been a boon to cities in the neighboring provinces of Jiangsu and Zhejiang. Many of these cities are now emerging as major markets in their own right, with massive populations and per capita incomes well above the national average. As costs in Shanghai continue to rise, these cities are expected to continue growing. A brief rundown of some of the largest of these little-known but important cities includes the following (note that population and income figures do not account for the large number of undocumented workers in these cities).

The Greater Shanghai Area (Shanghai, Jiangsu and Zhejiang)



Table 2. Cities in the Greater Shanghai Area (2001)

City	Province	Pop. (1,000)	GDP (\$mill)	Income (\$/year)
Changzhou	Jiangsu	837	9194	1137
Hangzhou	Zhejiang	1933	21524	1318
Huzhou	Zhejiang	351	5109	1377
Jiaxing	Zhejiang	300	8585	1302
Jinhua	Zhejiang	263	8223	1256
Nanjing	Jiangsu	2822	15659	1070
Nantong	Zhejiang	1417	10762	1026
Ningbo	Zhejiang	807	18137	1450
Shaoxing	Zhejiang	311	11231	1290
Suzhou	Jiangsu	1171	25151	1271
Taizhou	Zhejiang	275	8227	1311
Wenzhou	Zhejiang	563	12757	1596
Wuxi	Jiangsu	1245	19367	1143
Xuzhou	Jiangsu	1121	9612	921
Yancheng	Jiangsu	981	8137	839
Yangzhou	Jiangsu	531	6759	871
Zhenjiang	Jiangsu	2666	6786	931

Note: population estimates/income averages only include registered residents. Anecdotal information indicates that actual population may be up to 20-25% higher. (Statistics source: China Census).

Gateway to China's Interior

Further afield, Shanghai is also a major distribution center for cargoes destined for major cities deep in the interior. Although incomes are sometimes lower than in coastal cities and the mass market is very price sensitive, sheer size makes them tempting. Many boast a small but growing middle-class with a taste for novel

Table 3. Selected Cities of the Interior (2001)

City	Province	Population (1,000)	GDP (\$mill)	Avg. income (\$/yr)
Chengdu	Sichuan	2,341	20,072	983
Chongqing	Chongqing	3,934	23,833	813
Hefei	Anhui	1,107	4,987	824
Kunming	Yunnan	1,940	8,827	942
Mianyang	Sichuan	440	4,474	951
Wuhan	Hubei	4,489	18,054	883

Note: population estimates and income averages only include registered residents. Anecdotal evidence indicates that actual population may be as much as 20% higher. For example, Wuhan government sources estimate actual population at 6.8 million. (Statistics source: China Census).

products and the money to buy them. Tastes in these cities vary widely and can be difficult to anticipate. A recent food promotion in Wuhan, for example, discovered a high level of interest in processed Mexican foods. The level of development in retail and HRI is also variable. Kunming, deep in the interior, has an extremely sophisticated retail sector with investment from Wal-Mart, Carrefour, Metro, Parkson and numerous other foreign retailers. This is substantially more investment than Nanjing, which has a significantly higher population and average income. Exporters interested in these markets are advised to research these markets prior to entering them.

